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TO RUEHC/SECSTATE WASHDC PRIORITY 8354
INFO RUCNCOM/EC CARICOM COLLECTIVE
RUEHAO/AMCONSUL CURACAO 1034
RUEHBR/AMEMBASSY BRASILIA 1432
RUEHSJ/AMEMBASSY SAN JOSE 0441
RUEHBJ/AMEMBASSY BEIJING 0107
RUEHGH/AMCONSUL SHANGHAI
RUCPDO/DEPT OF COMMERCE WASHDC
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SIPDIS

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SENSITIVE

STATE FOR WHA/CAR LLUFTIG, OES, INR/IAA: RCARHART

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SUBJECT: UPDATE: PATAMACCA PALM OIL PROJECT

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Summary

1. (SBU) A late breaking solution to difficulties securing financial guarantees has breathed new life into the Chinese Patamacca palm oil project, but this event has renewed controversy over the sound business sense behind the deal. Those opposed describe it as nothing more than a thinly veiled timber export scheme undertaken by an inexperienced Chinese firm, which has contributed none of its own capital to the enterprise. While residents in the Patamacca region fear jobs will go to Chinese laborers, leaving them with no economic benefits but rather saddled with environmental degradation resulting from clear cutting large swaths of tropical rain forest. The deal also highlights a politically thorny scenario rife with rumor mongering of its implications for rural Maroon political support, growing Chinese influence and tilting the ethnic balance among the broader business community. End summary.

2. (SBU) Reftel outlined the difficult history of the Patamacca oil deal in which the Chinese investment company Zhong Heng Tai signed an MOU with the GOS to cut 40,000 hectares of tropical rain forest in order to plant a oil palm plantation and produce palm oil for export to the Chinese market. After foundering for over two years in its ability to secure financial guarantees of 16.2 million USD to support the project, the GOS surprisingly extended the deadline to April 10, 2006. Under the terms of the MOU, after the first 2 years the company is expected to provide an additional bank guarantee in the amount of 30.9 million USD to the GOS. On April 4, Paul Rellum, head of the GOS's steering group leading the negotiations between GOS and the Chinese company, stated that Zhong Heng Tai was still negotiating with Caribbean and local Surinamese banks to secure the financial guarantee. Suddenly on April 6 the press reported that the company had managed to secure the bank guarantee from the Royal Bank of Trinidad and Tobago (RBTT) with no details other than to say that financing in China remained unavailable. RBTT offered to guarantee the project on a "back-to-back basis," whereby a bank in China would counter guaranteed the RBTT loan in order to

revitalize the effort. In so doing, RBTT's action has reawakened the substantial controversy surrounding the deal.

¶3. (SBU) Opponents of the project have long cited the potential negative environmental impacts like loss of biodiversity, diminished habitat integrity and a higher potential for flooding brought on by the deforestation of old-growth forest and its replacement with a monoculture of oil palm trees. The NPS faction within the ruling coalition of the GOS has long pushed for this project discounting the criticism and believing it will create an estimated 5,000 jobs in the remote district of Marowijne. They also cite the expansion of Suriname's timber exports, and eventually palm oil, to China. In short, the ruling coalition with some members barely on board (see para. 6) - expects to derive revenue, expanded infrastructure, training for local labor, and the creation of local spin-off industries.

¶4. (SBU) Beyond the environmental concerns, the terms of the investment are rather unconventional in that the sweetheart deal allows for the sale of the cut timber to create a pay as you go method of financing the costs. Zhong Heng Tai would begin by clear-cutting 40,000 hectares of a total 50,000 hectares concession on which the palm oil trees will be planted. Beginning in the first year with an initial 1,000 hectares to be converted to palm oil production followed in the second year with an additional 2,000 hectares and in the third year another 3,000 and finally 4,000 hectares per year for the next 9 years until the entire 40,00 hectares are under cultivation. The wood harvested is meant for export to China for sale generating the revenue needed by Zong Heng Tai to pay the GOS a pre arranged fee of 12 USD per cubic meter for the export of milled lumber and 24 USD per cubic meter for the export of whole logs.

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¶5. (SBU) With the new financial guarantee, the project has reinvigorated political opposition to the deal. According to NDP member Jenny Simons, the deal with China Zong Heng Tai is nothing more than a front for a wood processing business. Simon believes the structure of the deal proves that the Chinese company intends to clear-cut Suriname's forest and use the income from the export of the wood to finance a palm oil project. Simons went on to say that the oil derived from such an operation could then only be sold on the Chinese market since international environmental regulations would prohibit other countries from purchasing palm oil produced under these conditions.

¶6. (SBU) Before A-Combination (AC) leader and convicted drugs trafficker Ronny Brunswijk was elected to the National Assembly in May 2005, he promised voters in his home district Marowijne that he would do everything in his power to stop the deal from going through. Now part of the governing New Front Plus coalition, Brunswijk and his fellow party leaders are under intense pressure to deliver on the high expectations for economic development they raised during their campaign. Local Maroon communities fear that they will lose out on the estimated 5,000 new jobs generated from the project, believing that the employment opportunities will go to "cheaper" Chinese laborers. Locals also dread the potential for environmental damage to the land and water on which they heavily rely.

¶7. (SBU) On April 27 local resentment reached a peak when people in the town of Moengo, which is the largest town near the Patamacca area, protested against the deal by calling on AC politicians in the National Assembly to step down for failing to stop the project. Others dubbed the arrival of the Chinese company and its staff as a Chinese invasion. Shortly thereafter, AC leaders held town hall meetings in Marowijne to clear up, as they claimed,

apparent misunderstandings about the nature of the project and the AC position, which precariously straddles both sides of the fence. AC leaders are not categorically opposing the deal, which would greatly upset their coalition partners, but at the same time are insisting on significant changes to the original agreement that would address their constituency demands.

COMMENT

18. (SBU) Despite the Deus ex machina intervention at the last minute by the local RBTT Bank to keep the Patamcca Palm Oil project alive there remain many skeptics who still see significant investment, environmental and political risks ahead. Some fear that the project is overly dependent on revenue generated from the cleared timber, which is meant to provide the investment capital for the first six years. Out of this revenue come start-up costs, infrastructure expenses and concession fees. With the Chinese firm Zhong Heng Tai risking none of its own capital, many wonder whether the project can even be classified as direct foreign investment by China. The fact that numerous Chinese logging firms have tried and failed to market Suriname's relatively unknown species of tropical hardwoods over the past decade does not bode well for the ultimate success of the Patamacca Palm Oil project. The project appears to critics to be little more than a concession granted to clear-cut 40,000 hectares of forest at a fixed price justifying the importation of Chinese workers. Others fear the inexperienced Zhong Heng Tai will fail leaving large-scale environmental damage in their wake. Finally, the most skeptical see the entire effort as being supported by the Creole dominated NPS political faction as an attempt to undermine the business strength of the Hindustanis through growing Chinese business interests. End comment.

BARNES